



STATE OF DELAWARE  
DEPARTMENT OF FINANCE  
DIVISION OF REVENUE  
DELAWARE STATE BUILDING  
820 N. FRENCH STREET  
WILMINGTON, DELAWARE 19801

DIVISION OF REVENUE  
TAX RULING 83-1

January 5, 1983

- Personal Income Tax  
Dividends Received from Regulated Investment Companies

Questions have been raised concerning the income tax treatment of distributions (dividends) received by individual shareholders (investors) from regulated investment companies, particularly from money market funds whose assets are wholly or in part invested in U.S. Government securities or other obligations of the United States. Specifically, the question raised is whether that portion of the dividends paid by such funds which is derived from interest on securities or obligations of the United States is exempt from Delaware tax.

For Federal income tax purposes, interest on U.S. Government securities and obligations is includible in Federal adjusted gross income and subject to Federal tax. In computing Delaware taxable income, Section 1106 (b) (1), 30 Del. C., provides for a subtraction from Federal adjusted gross income of interest on obligations of the United States or of any authority or instrumentality of the U.S. For this purpose the term "obligation" means a debt obligation or security issued by the United States, or an instrumentality thereof, in the exercise of its borrowing power, which obligation is backed by the full faith and credit of the United States.

Pursuant to the foregoing, all interest received on obligations of the U.S. purchased and owned directly by an individual taxpayer is excludible from Federal adjusted gross income and hence is not subject to Delaware tax.

However, dividends received from a money market fund or other regulated investment company is subject to Delaware tax to the extent such distributions are includible in Federal adjusted gross income. The stockholder (investor) owns shares in the fund, but does not own directly the U.S. obligations purchased by the fund. Accordingly, any portion of the dividends attributable to interest on such obligations cannot be subtracted under Section 1106 (b) in determining Delaware taxable income and is therefore subject to Delaware tax.

Robert W. Chastant  
Director of Revenue

RRS/mrs  
25/06/83/10/03